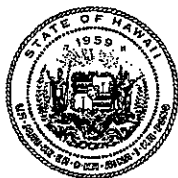


NEIL ABERCROMBIE
GOVERNOR

BRIAN SCHATZ
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
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FREDERICK D. PABLO
DIRECTOR OF TAXATION

RANDOLF L. M. BALDEMOR
DEPUTY DIRECTOR

To: The Honorable Marcus R. Oshiro, Chair
and Members of the House Committee on Finance

Date: Tuesday, April 3, 2012

Time: 3:00 p.m.

Place: Conference Room 308, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: S.B. No. 2941 S.D. 2 H.D. 1 Relating to High Technology

The Department appreciates the intent of S.B. 2941 S.D.2 H.D.1 and provides the following comments for the Committee's consideration.

Section 2 of S.B. 2941 S.D. 2 H.D.1 reinstates the tax credit for research activities for a period of five years beginning with taxable years beginning after December 31, 2011. The measure changes the definition of a qualified high technology business to one which owns property or maintains an office in this State which does at least 50% of its business activities in qualified research and of that amount, at least 50% of such qualified research is done in this State and reduces the amount of the credit for Hawaii purposes from 20 percent to 10 percent. The measure also eliminates the requirement that qualified research be done in Hawaii in order to qualify for the credit and requires any company claiming the credit to provide certain specified information to the Department.

The Department first notes that due to the elimination of the requirement that qualified research be performed in Hawaii (provided that at least 50% of the total qualified research was done in Hawaii), Hawaii taxpayers could end up paying for the cost of research done throughout the United States without any direct benefit to Hawaii.

For example, a company that had offices both in California and Hawaii would be able to claim the credit on all qualified research costs, provided only that the Hawaii office performed more than 50 percent of the qualified research. In addition, there is no cap or ceiling on the amount a company may claim. The potential revenue impact of this measure could be substantial because it is a refundable credit, whereas the federal credit is non-refundable.

The Department also notes that the broad definitions for "research" have made it difficult for the Department to administer the credit. The result has been protracted and complex litigation for the Department, requiring the Department to expend considerable resources to hire subject matter experts to address the type of expenses that maybe eligible and which taxpayers may claim the credit.

While qualified research does not include research funded by a federal grant, the issue of whether a project is funded or not is complex and litigation-prone. In addition, funded and non-funded research projects often overlap, with no clear distinctions on where one ends and the other begins.

In the broader sense, the lack of clarity not only creates administrative problems for the Department, but creates uncertainty for taxpayers. If the Department is unable to administer and implement the law, we are unable to provide taxpayers with guidance.

Lastly, the measure requires that a business claiming the credit is required to submit a report to the Department, and based upon those reports, the Department must report to the legislature on the effectiveness of the tax credit under this section. The Department would note that it does not have the high technology expertise to evaluate the effectiveness of the tax credit.

Regarding Sections 3 and 4 of this measure, the Department defers to the Department of Agriculture and the University of Hawaii, respectively, on the merits of those provisions.

Thank you for the opportunity to provide comments.



**TESTIMONY OF
THE DEPARTMENT OF THE ATTORNEY GENERAL
TWENTY-SIXTH LEGISLATURE, 2012**

ON THE FOLLOWING MEASURE:

S.B. NO. 2941, S.D. 2, H.D. 1, RELATING TO HIGH TECHNOLOGY.

BEFORE THE:

HOUSE COMMITTEE ON FINANCE

DATE: Tuesday, April 3, 2012

TIME: 3:00 p.m.

LOCATION: State Capitol, Room 308

TESTIFIER(S): David M. Louie, Attorney General, or
Bryan C. Yee, Deputy Attorney General

Chair Oshiro and Members of the Committee:

The Department of the Attorney General offers the following comments on this bill.

Section 205-4.5(a), Hawaii Revised Statutes (HRS), restricts the permissible uses of agricultural lands classified by the Land Study Bureau's detailed land classification, where those lands have an overall (master) productivity rating class A or B. Section 3 of this bill proposes to amend section 205-4.5(a), HRS, to allow for aerospace high technology parks on agricultural lands classified as C, D, or E. It provides in relevant part as follows:

Aerospace high technology parks; provided that this paragraph shall apply only to land with soil classified by the land study bureau's detailed land classification as overall (master) productivity rating class C, D, or E; and provided further that the aerospace high technology park has obtained a special permit under section 205-6.

Section 205-4.5(a), HRS, only applies to A or B rated lands. The bill, however, proposes to allow aerospace high technology parks only on C, D, or E rated lands. Therefore, we note that the bill currently proposes to amend the wrong statutory section.

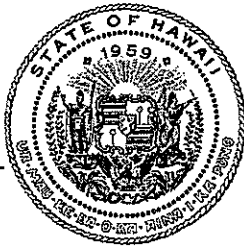
Additionally, section 205-2(d) and section 205-4.5, HRS, set forth the permissible uses within the agricultural district. Section 205-6, HRS, sets forth the process by which a county may issue a special permit to allow "unusual and reasonable uses within agricultural and rural districts other than those [uses] for which the district is classified." By requiring that an aerospace high technology park obtain a special permit in order to be a permissible use, this bill conflates the two concepts of "permissible uses" and "special permits." If a use is a permissible use, it does not require a special permit. A special permit is only needed if the use is not already a permissible use.

There are different ways in which this bill could be amended to resolve these legal issues. We understand that the Office of Planning has suggested that the wording currently contained in this bill be inserted instead into section 205-6, HRS. We agree that the Office of Planning's proposal would resolve these legal issues. The new subsection would read as follows:

(g) An aerospace high technology park may be permitted in the agricultural district by special permit under this section, on lands with soil classified by the land study bureau's detailed land classification as overall (master) productivity rating class C, D, or E.

For purposes of this subsection, an "aerospace high technology park" includes aerospace, processing, manufacturing, research, or instructional enterprises for aerospace high technology, commercial or experimental rocketry, satellite, lunar, nextgen avionics, solid waste resource recovery systems, enterprises for the development, processing, or transmission of alternative energy, industrial parks as defined in section 206M-1, retail, including food serving establishments, and wholesale, industry, processing, transportation, or manufacturing enterprises the primary purpose of which is to serve or provide products to the aerospace high technology enterprises or their employees. "Alternative energy" means energy derived other than from the processing of petroleum. "High technology" includes computer software and hardware, microprocessors, telecommunication devices, and robotics.

We respectfully recommend that the Committee make the proposed amendment to section 205-6, HRS.



DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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GOVERNOR

RICHARD C. LIM
DIRECTOR

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DEPUTY DIRECTOR

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Statement of
RICHARD C. LIM
Director
Department of Business, Economic Development, and Tourism
before the
HOUSE COMMITTEE ON FINANCE
Tuesday, April 3, 2012
3:00 PM
State Capitol, Conference Room 308
In consideration of
SB 2941, SD2, HD1
RELATING TO HIGH TECHNOLOGY.

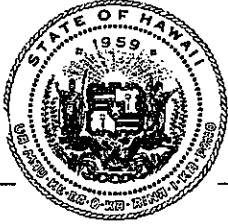
Chair Oshiro, Vice Chair Lee and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) supports SB 2941, SD2, HD1. DBEDT supports the effort to reinstate the R&D tax credit as a mechanism to promote high technology and innovation as an emerging technology industry within the State. We recommend amendments as proposed by the Hawaii Strategic Development Corporation.

With regard to Section 3, DBEDT supports the intent to facilitate the development of an aerospace high technology park on the island of Hawaii. However, the proposed addition of aerospace high technology parks in agricultural districts on C, D, or E rated lands should be accomplished by amending section 205-2(d), rather than 205-4.5(a), (as it is currently drafted on page 11, section 3), since the latter pertains only to A and B lands. The Department of the Attorney General has been consulted to assist with the formulation of this proposed technical amendment.

DBEDT defers to the University of Hawaii on Section 4 of the bill requiring the University of Hawaii to extend the current land lease of the Manoa Innovation Center to the High Technology Development Corporation (HTDC). The bill provides an extension of the land lease for a period of no less than twenty-five years from the expiration date of the existing lease.

Thank you for the opportunity to submit testimony on this measure.



DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

NEIL ABERCROMBIE
GOVERNOR
RICHARD C. LIM
DIRECTOR
MARY ALICE EVANS
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JESSE K. SOUKI
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Statement of
JESSE K. SOUKI
Director, Office of Planning
Department of Business, Economic Development, and Tourism
before the
HOUSE COMMITTEE ON FINANCE
Tuesday, April 3, 2012
3:00 PM
State Capitol, Conference Room 308

in consideration of
SB 2941, SD2, HD1
RELATING TO HIGH TECHNOLOGY.

Chair Oshiro, Vice Chair Lee and Members of the House Committee on Finance.

The Office of Planning supports the intent of SB 2941 SD2 HD1 to facilitate the development of aerospace high technology facilities in the State of Hawaii. As currently drafted, however, there are technical issues with the bill which we are recommending to be remedied as follows:

1. The proposed addition of aerospace high technology parks in agricultural districts on C, D, or E rated lands should be accomplished by amending section 205-2(d) rather than 205-4.5(a) as currently drafted, since the latter pertains only to A and B lands.
2. Referencing the need for a special permit in either section 205-2 or 205-4.5 is incongruous with these sections which describe permissible uses in the agricultural district. The requirement for a special permit should more appropriately be specified through an amendment of section 205-6.

We have consulted with the Department of the Attorney General to assist us in describing the needed technical amendments to the bill in accordance with the foregoing.

Thank you for the opportunity to offer these comments.



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Testimony Presented Before the
House Committee on Finance
April 3, 2012 at 3:00pm

by
James R. Gaines
Vice President for Research, University of Hawai'i

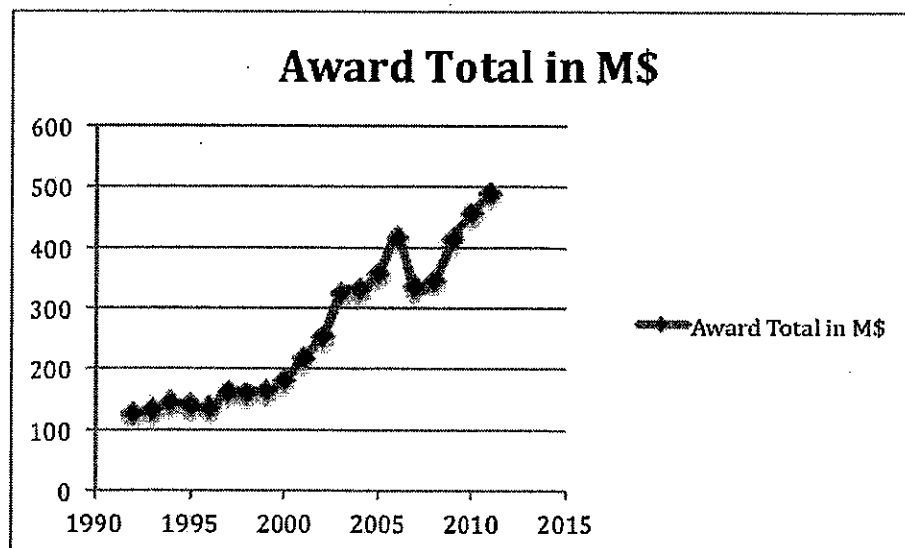
SB 2941 SD2 HD1 – RELATING TO HIGH TECHNOLOGY

Chair Oshiro, Vice Chair Lee and members of the committee:

The University strongly OPPOSES the section of this bill that requires the University to extend the lease of the Mānoa Innovation Center to HTDC for 25 more years after the present lease expires in 2015.

In 1990 the University of Hawai'i (UH) entered into an agreement under which the (then) new Mānoa Innovation Center (MIC), constructed on University land, was to be leased to the High Technology Development Corporation (HTDC) for a 25-year term, after which the facility was to revert to UH. All parties agreed, in writing, to this arrangement.

Since beginning of the current lease, University research awards have doubled in *each* of the past decades as shown by the graph below.



It is the goal of the University, in research, to *double the annual awards once more in the coming decade*. In order to accomplish this, new and remodeled facilities are essential and an expanded MIC will play an important role in achieving that goal.

It is important to emphasize the commitment of UH to the development of a robust research and technology industry in Hawai'i. Last year UH President Greenwood convened a blue ribbon task force to recommend key changes in how the University develops this research industry. Participants at our recently completed *E Kamakani Noi'i* conference further focused our ideas on what it will take to build a 21st century economy in Hawai'i.

We are still in the formative stages of defining exactly what form and structure will best support this needed innovation agenda. However, we expect that these activities will be based at the Mānoa Innovation Center, which is already a significant site for the University's research enterprise. In fact, UH and our related programs are already the single largest set of tenants in the facility and we are paying the largest portion of the rent, which goes to support HTDC operations. We could occupy all the existing space at MIC, with UH programs that are renting facilities elsewhere, immediately.

President Greenwood and UH leadership held preliminary discussions with the HTDC Executive Director and some of the HTDC board members. UH emphasized our willingness to let HTDC remain in the MIC facility after 2015 if they so choose. Our discussions further explored a range of possibilities, including HTDC playing a role in implementing the University's innovation agenda. These discussions are continuing and we will be happy to keep the Legislature informed of our progress.

The University does support the development of a technology park on O'ahu, the only island without such a capability. However, the Mānoa Innovation Center is not large enough to house the activities normally found within a technology park, so another venue should be found to provide full support for emerging technology businesses. HTDC would be the natural organization to lead such an initiative and UH would support them.

We believe this is an opportune time for the State to invest in the development of high technology to diversify and strengthen our economy. But this should not be done at the expense of research growth and the new innovation agenda being developed by UH.

We urge you to reject the section of this bill pertaining to the Manoa Innovation Center and, at the very least, preserve the agreement made with UH at the time MIC was constructed.



Written Statement of

KARL FOOKS

President

Hawaii Strategic Development Corporation
and

Yuka Nagashima

Executive Director and CEO

High Technology Development Corporation

before the

HOUSE COMMITTEE ON FINANCE

April 3, 2012

3:00 PM

State Capitol, Conference Room 308

In support of Section 2

SB 2941 SD2 HD1 RELATING TO HIGH TECHNOLOGY.

Chair Oshiro, Vice Chair Lee, and Members of the Committee on Finance:

The Hawaii Strategic Development Corporation (HSDC) and the High Technology Development Corporation (HTDC) support efforts to reinstate the R&D tax credit as provided for in Section 2 of this bill. We recommend modifications to reduce the revenue impact to \$5 million per year and support the addition of requirements to collect metrics from companies claiming the credit as this will provide the data needed to measure the effectiveness of the credit.

The previous R&D tax credit provided a tax credit equal to 20% of the qualified research activities performed in the state and was an effective measure to support research and development activities, which in turn, foster and encourage the innovation essential to create high-wage job opportunities in our economy.

Over the life of the previous R&D tax credit, the tax credit claims under this program averaged approximately \$11 million a year. Based on this historical data, DoTax has estimated this credit will have a revenue impact of \$10 million per year. However, it is anticipated that use of this credit may fall below this historical average as Federal spending on research activities has been reduced due to the elimination of earmarks.

The following recommended modifications to Section 2 of SB 2941 SD2 HD1 will reduce DoTax's projected revenue impact to \$5 million a year and still provide an important incentive for companies to create and retain high paying research jobs in the state:

- Reduce the credit to 10% of qualified research activities as per line 7, page 5
- Reinstate the language deleted on lines 14-16, page 4

If the credit can only be claimed for actual expenditures made in Hawaii and only for 10% of the qualified expenditures, the cost of the program is largely offset by taxes collected on expenditures and payroll.

We recommend technical amendments to the following definitions contained in SB2941 SD2 HD1:

Line 8, Page 7: "Qualified high technology business" means ~~[the same as in section 235-110.9.]~~ a business employing or owning capital or property, or maintaining an office, in this State; provided that more than fifty per cent of its total business activities are qualified research and more than fifty per cent of its qualified research is in this State.

Line 14, Page 7: "Qualified research" ~~[under]~~ means the same as in section 41(d)(1) of the Internal Revenue Code; except that qualified research shall not include research conducted outside of the State.

Thank you for the opportunity to submit testimony on this bill.

Written Statement of
YUKA NAGASHIMA
Executive Director & CEO
High Technology Development Corporation
before the
HOUSE COMMITTEE ON FINANCE
Tuesday, April 3, 2012
3:00 PM
State Capitol, Conference Room 308

In consideration of
SB 2941 SD2 HD1 RELATING TO HIGH TECHNOLOGY.

Chair Oshiro, Vice Chair Lee, and Members of the House Committee on Finance:

The High Technology Development Corporation (HTDC) supports **Section (4) of SB2941 SD2 HD1** requiring the University of Hawaii to extend the current MIC land lease to HTDC. In April 2015, HTDC will be without a facility to run its incubation services, without its primary funding source, and will not be able to run its program. **Loss of the HTDC will negatively impact the high technology industry within the State.**

HTDC has been active in seeking an alternate State-owned facility to operate its incubation program but support has not been available. One alternative would require CIP funds of \$7M for planning and design and still would require an extension to allow time for construction.

Please refer to the joint testimony submitted with the Hawaii Strategic Development Corporation (HSDC) for comments on Section (2).

Thank you for the opportunity to submit testimony on this bill.

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Extend tax credit for research activities; reduce credit

BILL NUMBER: SB 2941, HD-1

INTRODUCED BY: House Committee on Economic Revitalization and Business

BRIEF SUMMARY: Amends HRS section 235-110.91 to provide that the income tax credit for qualified research activities that may be claimed by a qualified high-technology business shall be equal to 50% of the credit for research activities provided by section 41 of the Internal Revenue Code (IRC) and as modified by this section.

Also amends the definition of "qualified high-technology business" as a business employing or owning capital or property, or maintaining an office in this state provided that more than 50% of its total business activities are qualified research and more than 50% of its qualified research is in this state.

Requires a qualified high-tech business that claims the credit under this section to complete and file with the director of taxation, through the department website, an annual survey on electronic forms prepared and prescribed by the department. Requires the survey to be filed before June 30 of each year following the calendar year in which the credit may be claimed under this section. Failure to file the survey will be subject to a fine of up to \$1,000 for each month of failure to file and forfeit of the credit.

The survey shall include: (1) identification of the industry sector in which the qualified high-technology business conducts business; (2) qualified expenditures; (3) revenue and expense data; (4) Hawaii employment and wage data including the number of full and part-time employees retained, new jobs, temporary positions, external services procured by the business, and payroll taxes; (5) filed intellectual property, including invention disclosures, provisional patents, and patents issued or granted; and (6) federal and state income tax returns and documents related to deductions for tax credits for research activities.

The department of taxation shall request information necessary to measure the effectiveness of the tax credit, such as information related to patents. In preparing the survey and requesting any additional information, the department shall ensure that qualified high-technology businesses are not subject to duplicative reporting requirements. The department shall use information collected to prepare summary descriptive statistics by category and reported at the aggregate level to prevent compromising identities of qualified high-technology business investors or other confidential information. The department shall also identify each qualified high-technology business that is the beneficiary of tax credits claimed under this section. The department shall report the information required under this subsection to the legislature by September 1 of each year.

The department shall also use the information collected to study the effectiveness of the tax credit and shall report on the amount of tax credits claimed and total taxes paid by qualified high-technology businesses, the number of qualified high-technology businesses in each industry sector, jobs created,

external services and materials procured by the businesses, compensation levels, qualified research activities, and other factors as the department determines. The department shall report the results of its study to the legislature by December 1 of each year.

Extends the expiration of the tax credit for research activities from 12/31/10 to 12/31/16.

Makes other nontax amendments to HRS section 205-4.5 and requires the University of Hawaii to extend the current land lease with the high-technology development corporation for at least a 25-year period.

EFFECTIVE DATE: July 1, 2112; applicable to tax years beginning after December 31, 2011

STAFF COMMENTS: The legislature by Act 178, SLH 1999, and Act 221, SLH 2001, enacted various tax incentives to encourage the development of high-technology businesses in the state. These acts provided investment and research credits, as well as income exclusions and tax incentives, to encourage high-tech businesses and individuals associated with high-tech businesses to locate in the state. This measure reduces the amount of the credit, adds extensive information reporting requirements and extends the expiration of the tax credit from December 31, 2010 to December 31, 2016. While the adoption of this measure would allow the department of taxation to ascertain the effectiveness of the tax credit for research activities, such a review should have been performed a few years after the credit had been adopted.

Although this measure would reduce the amount of the credit and extend the credit for research activities until December 31, 2016, it would perpetuate the drain on state funds. It should also be remembered that the research credit is a refundable tax credit. Thus, should the amount of the credit exceed the taxpayer's income tax liability, any excess credit is a cash payment out of the state treasury to the claimant.

While the focus on high-technology in the last few years is commendable, it fails to recognize that investments are made with the prospect that the venture will yield a profit. If the prospects for making a profit are absent, no amount of tax credits will attract investment from outside Hawaii's capital short environment. People do not invest to lose money. It should be remembered that until Hawaii's high cost of living can be addressed, all the tax incentives in the world will not make a difference in attracting new investment to Hawaii. The only attractive aspect for resident investors to plough money into such activities is the fact that the credit provides a way to avoid paying state taxes.

A former Hawaii resident who has been a success in the field of high-technology pointed out recently what will make Hawaii conducive to high-tech businesses and they are: (1) entrepreneurs, not capital, that comes first; (2) entrepreneurs coming from engineering schools and technology companies; (3) building a world class engineering school in Hawaii; (4) supporting internships at technology companies; (5) allowing our best children to go away to get a worldwide perspective; (6) despite the drive by the current administration to enhance broadband communications in Hawaii, broadband passing through Hawaii is already everywhere and is not a selling point; (7) that people can fly direct and therefore Hawaii's mid-Pacific location is not an advantage; (8) learning the rules of the game; (9) looking at Israel and learning from them; and (10) doing your own thing, being a copy cat does not work. At the heart of his remarks was the fact that in order to produce a high-technology industry in Hawaii, those companies need to have access to institutions of higher education that are producing the people needed by the high-technology industry. Without the academic synergy, Hawaii will never become a

center for high-technology activity. Thus, all of the tax incentives, like this measure embodies, will fall short of luring high-technology firms to Hawaii.

Further, the tremendous tax burden, the draconian regulatory environment, and the dramatic increase in fees that go with the permitting process make Hawaii an unattractive place to do business. It should be remembered that while the high-technology credits may look like a good incentive or enticement to undertake research activities in Hawaii, those who would conduct this research must live in the same high cost-of-living environment with which other taxpayers continue to struggle. Thus, the cost of maintaining those researchers will be higher than to do so where the cost of living is much lower. Let's not bet the farm on high-technology without really understanding what makes this industry tick.

Obviously the authors of this proposal would like to ignore the evaluation of these tax incentives done by UHERO a few years ago which basically condemned the credits as a waste of state resources as there is little evidence that the current program of tax credits has created substantial new employment or on-going enterprises. It is truly amazing that given the dire condition of the state's financial condition that lawmakers would continue to support unbridled drains of resources while at the same time proposing that the tax burden be increased on all others. With declining revenues, every program from education to corrections to health services will be severely curtailed. If the state doesn't have the money to put textbooks in the schools why then do we need the highly touted, high-paying jobs the advocates for the industry promise? The next generation may not even know how to read given the cuts to the education budget.

Again, lawmakers must ask themselves whether or not this incentive is appropriate in these dire financial times. Given that there are many other proposals in the legislature to hike tax rates for either the general excise or net income taxes, taxpayers will find the continuance of these targeted business tax credits frightening. Frightening because these very lawmakers are supposed to represent the best interest of their constituents. Raising taxes on constituents while still handing out money to favored groups will engender the ire of constituents. The finger of blame for these potential increases in tax burden should not stop at lawmakers, but be placed squarely on those in the community who continue to push for these targeted tax credits. Perhaps those proponents should be asked to pick up the tab for this reckless expenditure of precious tax dollars.

While it is gratifying to know that lawmakers have finally realized that they need to evaluate the effectiveness of some of these tax incentives, it comes a tad late, but better late than never. What is appalling is that lawmakers wish to continue the credit before the evaluation is made. So no matter what the evaluation finds, the credit will go on without further review. Rather than extending it for an irrelevant period of time, the extension should be made co-terminus with the submission of the study so that policymakers can have the evaluation and recommendations before them before they decide the fate of the credit.

Finally, it should be noted that this state credit basically tracks the federal tax credit for research activities, including the disqualification for the credit should any part of the cost of the research be supported by federal grants. It would be interesting to know how many of the claims for this state research credit were disqualified because all or a part of the research activities were paid for with funds from federal grants.



**Testimony to the House Committee on Finance
Tuesday, April 3, 2012 at 3:00 p.m.
Conference Room 308, State Capitol
Agenda #2**

RE: SENATE BILL NO. 2941 SD2 HD1 RELATING TO HIGH TECHNOLOGY

Chair Oshiro, Vice Chair Lee, and Members of the Committee:

The Chamber of Commerce of Hawaii ("The Chamber") **supports the passage of SB 2941 SD2 HD1** relating to High Technology for further discussion.

The Chamber is the largest business organization in Hawaii, representing more than 1,100 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of its members, which employ more than 200,000 individuals, to improve the state's economic climate and to foster positive action on issues of common concern.

This measure adds reporting requirements to measure the effectiveness of the tax credit for research activities; extends the tax credit through 2016; applies to tax years beginning after 12/31/2011.

This bill will create and retain jobs while increasing the state's revenues. We cannot afford to overlook the prime opportunity to promote this growing sector in our state. This is the opportune time to support our small local companies in the R&D industry so that it can continue to flourish and provide jobs for our talented citizens and ensure that our talented keiki have a viable option to move back or stay in Hawaii and obtain quality jobs. Furthermore, this measure will strengthen the industry's effort to compete with other players in the national and international arena. Finally, supporting the R&D industry will help broaden and diversify Hawaii's economic base.

Research and development is a highly critical component to a sustainable economy. R&D provides well-paying jobs to highly-educated employees. These employees pay significant taxes back to the state and spend considerable amounts of income within the state for goods and services. Furthermore, as the R&D matures it creates product companies that increase the number of jobs and tax base significantly.

Therefore, we respectfully ask that the committee to **pass this measure** for further discussion. Thank you for the opportunity to provide testimony.



**Testimony Presented Before the
House Committee on
Finance
April 3, 2012 at 3:00 p.m.**

**by
John C. Hamilton
Deputy Director, PISCES**

SB2941SD2SD1 RELATING TO High Technology

Chair Representative Marcus Oshiro, Vice-Chair Representative Marulyn Lee and Members of the Committees,

Aloha. I am John Hamilton, currently serving as Deputy Director of PISCES. I am testifying in favor of SB 2941 relating to High Technology.

This bill is essential to the further growth of PISCES and the entire aerospace surface systems testing and development industry in Hawai'i. I urge you to support this bill along with its provisions for aerospace allowable uses on the (unproductive) Agriculture lands (C, D & E). As you may know, most of the land use on the island of Hawaii is zoned Agricultural. This includes much of the rocky, lava basalt areas. These lands are not suitable for traditional crop methods. Thus, this measure does not take lands out of Agricultural use, it merely makes an additional allowable use of Agricultural lands generally unsuitable for cultivation (with poor soils).

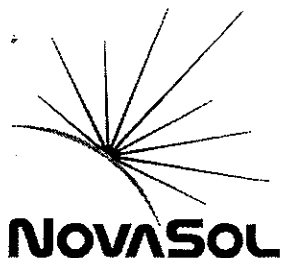
This proposed aerospace research and development technology park (of which PISCES will be both manager and lead participant) represents a clear value to the Big Island economy with multiple new companies (most of which do not compete with or duplicate services of existing local companies). The real potential for job creation across all sectors from support, supply to the desired high-tech workforce development is crucial and needed immediately for our State (and Big Island) economy.

Today, Hawai'i has this one chance to become the recognized global leader in such an integration and testing facility with a broad customer base. We must start now to prepare for these customers. In conclusion, I wish to thank the committees for their attention and allowing me to share my mānao with you. Now is the time, Hawai'i is the place. Please support our island, our economy, our workers and our future. Imua!

**John
Hamilton**

Digitally signed by John Hamilton
DN: cn=John Hamilton,
o=University of Hawaii - Hilo,
ou=Dept of Physics and Astronomy,
email=jch@hawaii.edu, c=US
Date: 2012.04.02 12:04:05 -10'00'

John Hamilton
Deputy Director, PISCES



April 2, 2012

TESTIMONY TO THE HOUSE COMMITTEE ON FINANCE

April 3, 2012, 3:00 PM

Conference Room #308

RE: SB 2941 "RELATING TO HIGH TECHNOLOGY"

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Dear Chair Chair Oshiro, Vice Chair Lee, and members of the House Finance Committee:

I am writing to you to express my strong support for SB 2941 which seeks to extend for five years the research and development (R&D) tax credit that has proven so successful in the past. This bill is extremely important and affects a large number of individuals and organizations in the State of Hawaii that perform R&D work.

This bill will enable broad sectors of R&D activities in the State to continue by incentivizing this type of work. R&D activities in the State produce the very kinds of jobs that are desired here, high paying technology sector jobs. The type of personnel that perform this kind of activity are also the same entrepreneurs that start additional new companies that ultimately yield even more revenues, jobs and provide tremendous upside potential in Hawaii.

R&D work is critical to the future growth in Hawaii industry and education and should be supported as this bill would do. A few points to consider:

- The tech industry lost most of its Federal and State support in a single year in 2011 leading to several companies closing or significantly downsizing, so the R&D support has never been more critical to retain and grow high tech jobs in Hawaii. Large numbers of these highly trained and highly paid individuals have left the State and it takes years to regain that human resource capability.
- Local tech companies provide opportunities for young tech workers coming out of school who are otherwise forced to move to mainland locations to find gainful employment in tech fields.
- Tech workers are the kind of high paying innovation jobs Hawaii should most want, both for their high wage positions and also for the type of people tech workers tend to be, entrepreneurial individuals that often start up additional companies and significantly expand the economy. The latest issue of Hawaii Business magazine talks about the wealthiest people in Hawaii and

4 out of the top 5 of those individuals made their fortune in the technology industry.

- Tech workers make up ~5% of the workforce in the State but produce ~10% of the revenue.
- Tech companies inspire STEM education opportunities through internships, relationships with local universities and schools, science fairs, robotic competitions, etc. STEM education in Hawaii is weak and will become weaker still without a technology industry to provide opportunities, mentorships, teaching, etc. We need to provide work opportunities for STEM educated students to interact and go to upon completion of school.

Please feel free to contact me at any time if you have other questions or comments.

Sincerely,

Rick E. Holasek, Ph.D.
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TESTIMONY TO THE HOUSE COMMITTEE ON FINANCE

April 3, 2012, 3:00 PM

Conference Room #308

RE: SB 2941 "RELATING TO HIGH TECHNOLOGY"

Chair Oshiro, Vice Chair Lee, and members of the House Finance Committee

My name is David G. Watumull, President and CEO of Cardax Pharmaceuticals, Inc. I am testifying on behalf of my company as well as an individual who cares deeply about Hawaii. My testimony is in strong support of SB 2941.

As a biopharmaceutical entrepreneur in Hawaii, I have started or been personally involved in the senior management of at least three life science companies in Hawaii. The State tax credit played a major, positive role in the determination by the boards of these companies to locate or keep these companies in Hawaii. As we all know, Hawaii is a high cost state and a State R&D tax credit helps mitigate the cost differential between Hawaii and many other suitable locations on the Mainland.

The expiration of these and other credits has been a major factor in the loss of jobs at these three companies from over 75 to less than 35 today. Many other states or local governments, almost all of whom are in more financial distress than Hawaii, are increasing incentives for life science companies rather than eliminating them. While never easy, it has become very difficult to convince boards that Hawaii is a viable place for a life science company without the R&D credit.

Please seriously consider reinstating this important aid to the development of the life science and other R&D companies in Hawaii.

FINTestimony

From: mailinglist@capitol.hawaii.gov
ent: Monday, April 02, 2012 10:28 AM
To: FINTestimony
Cc: alan.hayashi@baesystems.com
Subject: Testimony for SB2941 on 4/3/2012 3:00:00 PM

Testimony for FIN 4/3/2012 3:00:00 PM SB2941

Conference room: 308
Testifier position: Support
Testifier will be present: Yes
Submitted by: Alan Hayashi
Organization: Individual
E-mail: alan.hayashi@baesystems.com
Submitted on: 4/2/2012

Comments:

ALAN S. HAYASHI
207-4 Kawaihae Street
Honolulu, Hawaii 96825

TESTIMONY TO THE HOUSE COMMITTEE ON FINANCE Tuesday, April 3, 2012 @ 3:00 pm Conference Room #308

RE: SB 2941 "RELATING TO HIGH TECHNOLOGY"

Chair Oshiro, Vice Chair Lee, and members of the House Finance Committee:

My name is Alan Hayashi and I am testifying as an individual employed by a large defense contractor involved in research and development. My testimony is in support of the intent of SB2941 SD2.

The High Technology industry's research and development (R&D) function is one that could employ Hawaii's brightest and best STEM graduates and could grow to be a substantial contributor to the kind of green "clean" economy we are striving to develop. Unfortunately, the 2008 economic downturn and corresponding lack of funding for research and development dealt a severe blow to the High Technology industry and the local technology community. The suspension last year of the R&D Tax credit was crippling to many small R&D firms. Some were sold to "off island" interests, and some severely cut back on employees, or closed. Because the industry is based on invention, and the innovation of intellectual property...firms are transportable, large factories are not necessary. Many sections of the country offer incentives to attract high technology industry to their cities. As such the competition for high technology companies is always present. Many stay in Hawaii, because they grew up here and enjoy the life style and closeness of family. However, in these competitive times, that is not enough. Unless Hawaii offers a competitive economic environment many will leave and the dream of a society of smart young folks solving problems and innovating will forever disappear.

Unlike some industries, high technology is an industry that requires the gathering of varied talent, molded into a team that can solve complex and intricate problems. You cannot start and stop this industry without hurting its effectiveness and capability. Hawaii has to decide whether we want an industry of smart young people to help us solve the problems of the future...otherwise they will go elsewhere. What are we training our young folks, with our many STEM programs, if not to employ them here in Hawaii to help us with our economy? If the Legislature values the High Technology capability, I urge you to support the industry with re-instatement of a tax credit.

Thank you for consideration of my position on the issue and for the opportunity to present testimony. I will be glad to answer any questions you might have.